GLOBAL COMMODITIES UPDATE

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There's so much going on in the global commodity markets right now. There's so many moving pieces and information is changing daily. We're seeing extreme price volatility across the commodities.

[Shipping barges at sea. An empty warehouse.]

And global trade flows and patterns have been changing, which has created a really challenging environment. So, it's certainly not just in oil and energy, but we're seeing it in all the commodities with big moves in commodity prices.

[Ukraine impact]

[The Ukraine flag waves over Kyiv.]

Certainly, front of mind is Russia and Ukraine, which are key producers of a lot of the commodities and suppliers of feedstock for areas of commodity production.

[A computer-generated (CG) image of Europe with Ukraine pulsating yellow and surrounded by red circles.]

So, the impact from the invasion and then the sanctions has been really widely felt.

[Oil refineries in Russia. Shots of nickel being cut, a spool copper wire, a cylinder of palladium and a small hill of coal appear in a split-screen image.]

Russia accounts for around 10% of global oil production and they are about 40% of global potash production. And they're critical in a number of other commodities as well, such as nickel, copper, palladium and coal.

And it's not just supply that's driving commodity prices.

[A forklift in moves through stacks of shipping containers. A shipping barge at sea.]

It's really hard to readjust global trade flows for commodities on supply disruptions. The winners are the commodity producers outside of Eastern Europe who take advantage of the higher prices. The winners are also the buyers who will ignore the sanctions.

[A closed-down mine. The inside of a copper mill.]

Clearly, the losers are the producers in Eastern Europe and those that use Russia and Ukraine inputs in their manufacturing process.

The losers are also us, the consumers with inflation.

[An oil refinery in Russia. Shots of a gas pipeline under water, copper rods, and a large field covered in fertilizer appear in a split-screen image.]

Commodities are at the front end of the supply chain, and higher prices for materials like energy, metal and fertilizers drives inflation down to us. So, with that background in mind, we'll give a couple of updates on the key commodities.

[Oil outlook]

First, on oil.

[An oil refinery in Russia. A barge carrying Russian oil. A CG image of oil barrels.]

So, we've seen the impact in our wallets at the pump. Russia supplies around 10% of the global market. We've seen the price move from the low nineties in February to about $105 a barrel now. So, a lot of signposts in the energy sector that we're watching for.

[The Ukraine flag waves over Kyiv. The OPEC flag waves in the sun. A zoom in over a map of Iran that stops on a pin placed in Tehran.]

First and foremost, Russia and Ukraine outcomes, how OPEC's supply response reacts to the market, and if there's potential for an Iran deal. We're watching the North American supply response to high prices really closely.

[A zoom in over a map of China. A man in full PPE sprays down a wall. A zoom in over a map of Ukraine that stops on a pin placed in Kyiv.]

And on the demand side, we're watching for COVID in China and how the impact on demand from the zero COVID policy plays out. Starting with Russia and Ukraine our base case is that the sanctions likely stay for longer - even if the war ends tomorrow. We don't think things go back to normal in the near term.

So, what does that mean? In our view, it means that global trade flows will have to be rebalanced and that will take time and it'll create dislocated markets and arbitrage opportunities in energy.

[The exterior of the Organization of the Petroleum Exporting Countries (OPEC) headquarters.]

On the OPEC side, they've been sticking to the script of plus 400,000 barrels a day of monthly increases. And the key question is, will that continue? We're seeing compliance from OPEC at plus 100%, which to us doesn't imply necessarily that their behavior is good, but that they probably have limited ability to grow.

[The exterior of the White House. An aerial view of Azadi Tower in Tehran.]

And plus, Biden has mid-term elections later this year and may not want to look weak on Iran by doing a deal. Probably the area where we have the most visibility is on the North American supply response.

[Large silos of oil.]

At the end of the day, if we step back from all the politics, our view is that the oil market is fundamentally tight. We think the price of oil can be supported over the next couple of months. The real wild card that we're watching for is COVID growth in China and the impact that that has on global demand.

[Copper outlook]

[A stack of copper wire in a warehouse.]

Next, turning to copper, we're seeing unseasonably low inventory levels into the spring and that's supportive for the next few months.

[An aerial view of a copper mine. A large furnace for melting copper. A river of molten copper.]

On the supply side, there are a couple of large scale new projects coming and ramping up now, but there isn't much in the pipeline for development after that.

[Images of copper wire being manufactured. A small bunch of copper rods.]

On the demand side, China is in a period of fiscal and monetary loosening, and copper prices are already at elevated levels. Typically, when China eases, that's associated with growing demand for copper. So, with inventories low and limited supply growth, we think that that Chinese easing can be supportive for the price.

[An aerial view of an island oil refinery. A man in PPE sprays down an apartment hallway. The harbour in Shanghai.]

Again, like with energy, the risk on the demand side is the zero-COVID policy in China. And then over the medium term, we think there's a structural bull case for copper to be made with the transition to a lower carbon energy market, that will be hugely copper intensive both on the front end but also on the power grid that upgrades that will be required to deliver the green energy to end consumers.

[Solar panels. Copper wire. Aerial views of a hydro-electric grid and a wind farm.]

So, given this new source of copper demand, we expect that new mines will have to be incentivized into production to balance the market.

[Three land surveyors at dusk.]

And that should come at a much higher copper price to stimulate exploration and bring the next generations of projects into production.

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